



# Drinking Water State Revolving Fund Preconstruction Loan Guidelines

331-537 • 11/13/2020

The Drinking Water State Revolving Fund (DWSRF) program is now offering a Preconstruction Loan Program. These guidelines define the application and review process for the DWSRF Preconstruction Loan Program.

## Program Description and Goals

Preconstruction activities prepare the water system to begin construction on projects eligible for DWSRF or other infrastructure financing programs. These can include:

- ◆ Water system planning.
- ◆ Design and engineering.
- ◆ Historical and cultural consultations.
- ◆ Environmental reviews, including SEPA.
- ◆ Asset management as part of a larger infrastructure improvement project.
- ◆ Value planning.



The program's goal is to finance preconstruction activities through low interest loans so that water system improvement projects are ready for construction.

## Application and loan information

- ◆ Applications accepted year-round starting January 19, 2021, using our online application system, Washington Grant and Loan Tracking system (WALT)
- ◆ Maximum loan amount is \$500,000 per jurisdiction per fiscal year (July 1 to June 30).
- ◆ Interest rate is 0 percent. No subsidy is available.
- ◆ Loan must be repaid over a ten-year period. Annual loan repayments start in October of the first year of loan contract execution.
- ◆ We assess a 2 percent non-refundable loan fee at loan execution. The loan fee is not subject to the loan limit. For example, if a project is budgeted at \$500,000, you can apply for a \$510,000 loan.
- ◆ You must complete the scope of work activities **within 24 months** of contract execution.

## Application schedule

Action	Date
Application available	January 19, 2021.
Application deadline	Open year-round until funding is exhausted. Approximately \$3 million available to award each year.
Department executes contracts	Within 90 days of receipt of complete application.
Recipient signs and returns contracts	Within 60 days of contract receipt.

## Eligibility Requirements

### Eligible applicants

- ◆ Publicly or privately owned Group A community water systems. Homeowners' associations must submit articles of incorporation.
- ◆ Transient or nontransient noncommunity public water systems owned by a nonprofit organization. Nonprofit noncommunity water systems must submit tax-exempt documentation.
- ◆ Tribally owned water systems. The water system must meet all capacity requirements and the proposed project may not receive Safe Drinking Water Act (SDWA) national set-aside funds.

### Ineligible applicants

- ◆ Noncommunity public water systems owned by a for-profit organization.
- ◆ State or federally owned water systems.
- ◆ Systems lacking ability to repay the loan.

### Eligible activities and costs

Applications must focus on preconstruction activities leading to construction.

#### Included eligible activities

- ◆ **Feasibility, consolidation, and restructuring studies.**
- ◆ **Water system planning.** Completing a Water System Plan or Small Water System Management Program directly related to an eligible capital construction project. With department approval, you may size projects to allow reasonable population growth and water system expansion in accordance with growth projections in your planning documents.
- ◆ **Cultural and Environmental reviews.** Preparing a cultural resource survey, inadvertent discovery plan, or environmental documents. We will act as the lead agency in coordinating the cultural review with the Department of Archeology and Historic

Preservation and Tribes. Your local jurisdiction is typically the lead agency for environmental review (SEPA/SERP).

◆ **Design, engineering and construction documents** for:

- A new source.
- Source reconstruction.
- Disinfection improvements/treatment.
- Filtration.
- New reservoir or reservoir improvements.
- Treatment plant improvements.
- Water main or distribution improvements (including main extensions to connect to safe and reliable drinking water sources, booster pumps, and seismic improvements).
- Infrastructure improvements to maintain compliance or further protect public health. Such projects may include pressure reduction devices, telemetry, and additional source for improved resiliency.
- Restructuring and consolidation projects to take over noncompliant, failing, or struggling water systems (see below for further eligibility requirements for these types of projects).
- Security measures as part of a larger infrastructure project.
- Backflow prevention as part of a larger infrastructure project.

◆ **Asset management activities when part of a larger infrastructure improvement project**, such as:

- Developing an asset inventory that includes identification of major assets, age, expected life, replacement cost, and criticality.
- Mapping asset locations.
- Purchasing asset management software.

◆ **Value planning activities**, such as:

- Identifying project alternatives.
- Developing decision matrix and report for project alternatives.
- Meetings and stakeholder outreach.

## Included eligible costs

◆ **Direct labor costs** of the loan recipient, including salaries and wages at actual rates. The following direct labor costs are eligible:

- Pre-design engineering.
- Design engineering.
- Administrative and project management labor costs are eligible but cannot exceed three percent of the loan amount.

◆ **DWSRF loan fees.**

◆ **Permits.**

## Ineligible activities

- ◆ Purchase of infrastructure or land. These activities may be eligible under a DWSRF Construction Loan.
- ◆ Refinancing of debt or other funding agreements. These activities may be eligible under a DWSRF Construction Loan.
- ◆ Future population growth and water system expansion (when this is the primary goal)
- ◆ Fire protection as the primary goal.
- ◆ Activities on dams or raw water reservoirs.
- ◆ Water rights, except if the water rights are owned by a public water system that is being purchased through consolidation.
- ◆ Laboratory fees for ongoing monitoring.
- ◆ Indirect salaries, wages, and benefits for water system employees whose work falls outside of the scope of preconstruction activities.
- ◆ Purchase of materials.
- ◆ Any ground disturbing or construction activities.

## Special eligibility requirements for restructuring and consolidation projects

Only Group A community water systems, municipal entities, and satellite management agencies are eligible to apply for DWSRF funding for restructuring and consolidation projects. Projects must result in a water system being inactivated due to consolidation with another water system or change of ownership.

Restructuring and consolidation projects are those that will acquire other Group A or Group B public water systems that may have water quality problems, deteriorated infrastructure, or capacity issues. For consolidation projects that involve one or more Group B water systems, the Group B system(s) must become a Group A system at the end of project as result of the consolidation and not due to growth or expansion. State or federally owned water systems can be part of a consolidation project. Restructuring and consolidation projects will be scored based on compliance history of the system being acquired over the past five years.

Additionally, applicants for a restructuring and consolidation project must demonstrate a record of sound drinking water utility management. They must:

- ◆ Own at least one Group A public water system.
- ◆ Have at least five years of experience as a Group A water system or have someone on staff with 5 years of experience with a Group A water system.
- ◆ Have no state or federal civil penalties in the past five years.
- ◆ Have received no unilateral enforcement orders from EPA or DOH in the past five years.
- ◆ Not have had a system's operator license suspended or revoked in the past five years.
- ◆ Be current with DOH fee payment schedule.

# Application Process

Applications are accepted year round and awarded on a first-come basis until funding is exhausted. All applications are submitted on-line using WALT. [Visit our website](#) to get started.

## Eligibility assessment

We provide an initial review to ensure the application is complete, and the proposed project is eligible.

If we determine applicants or projects are ineligible, we remove the applications from funding consideration and send a letter explaining the reason for the ineligibility determination. You may appeal an ineligibility decision using the appeal process described below.

## Appeal process

You have ten working days from the date on the disqualification notification to send an appeal letter to the director of the Office of Drinking Water. The appeal letter should:

- ◆ Explain how the applicant's proposed project meets DWSRF preconstruction loan eligibility criteria.
- ◆ Include any supporting documentation.
- ◆ Request reconsideration of the application.

The office director will review the appeal letter and documentation and re-evaluate the application. We will notify you in writing when the office director makes a decision. The office director's decision is final.

## Scoring

After the eligibility screening, applications are scored. The key factor in scoring is the risk category and the public health risk the project addresses. In order to receive an appropriate score, you must clearly document the public health risks and compliance problems the project addresses. **An application can receive points in only one risk category and only one project type** (such as a new source or treatment). The risk categories in priority order are as follows.

<b>Risk Category 1</b>	Microbial (42 points)
<b>Risk Category 2</b>	Primary inorganic chemical (34 points)
<b>Risk Category 3</b>	Other primary chemical (26 points)
<b>Risk Category 4</b>	Secondary chemical, seawater intrusion, or resiliency (18 points)
<b>Risk Category 5</b>	Infrastructure replacement, or other distribution improvements (10 points)

See **Appendix A** for complete scoring criteria. We will use project scores in the event multiple eligible projects are received on the same day and funding is limited. If projects receive identical scores, we use the largest population served as a tiebreaker.

## Financial review

- ◆ We conduct a financial viability review of each application based on the financial information provided in your application. Please provide complete financial information as requested in the application.
- ◆ If we contact you for additional financial information, you must respond within two weeks. Otherwise, we may withdraw your project from funding consideration.
- ◆ We require **non-municipal** applicants to provide:
  - Copies of the borrower's tax returns for the past three years.
  - Balance sheet statement for the past three years.
  - Three professional or business references.
  - Completed financial capacity worksheets.

Incomplete financial information will result in an application being deemed as incomplete and ineligible for funding.

## Next steps if your preconstruction loan is funded

- ◆ We notify you if you will receive a loan award.
- ◆ We work with you to negotiate the contract scope of work.
- ◆ Contracts will be executed following the final scope of work negotiation.
- ◆ You will have 60 days to sign your contract, or the loan offer will be withdrawn.
- ◆ After the contract is signed, eligible preconstruction costs may be reimbursed. Preconstruction activities completed prior to signing a contract is done at the water system's risk.
- ◆ Refer to the DWSRF Customer Handbook.
- ◆ A nonrefundable two percent loan fee is assessed at contract execution and amortized over the life of the loan.
- ◆ We will withhold 10 percent of your contract amount until you officially close out preconstruction activities.

## Contact information

### Drinking Water State Revolving Fund Loan Program

Department of Health, Office of Drinking Water

PO Box 47822

Olympia, WA 98504-7822

**Phone:** 360-236-3100 or 800-521-0323

**Fax:** 360-236-2252

**Email:** [dwsrf@doh.wa.gov](mailto:dwsrf@doh.wa.gov)

**Website:** [doh.wa.gov/DWSRF](http://doh.wa.gov/DWSRF)

<b>If you have questions about</b>	<b>Contact</b>	<b>Phone</b>
Application and general questions	Sara J. Herrera	360-236-3089
Cultural/environmental review	Scott Kugel	509-329-2117
Scope of work or eligibility	Janet Cherry	360-236-3153
Underwriting	Mike Copeland	360-236-3083
Contracting	Eloise Rudolph	360-236-3124
Contracting	Dennis Hewitt	360-236-3017
Contracting	Brittany Cody-Pinkney	360-236-3047



If you need this publication in an alternative format, call 800.525.0127 (TDD/TTY call 711). This and other publications are available at [doh.wa.gov/drinkingwater](http://doh.wa.gov/drinkingwater).

# Appendix A

## Project Scoring Procedures

Following are the risk categories and associated points in priority order:

**Risk Category 1 Microbial (42 points).** To receive a score in this Risk Category, your project must address a documented microbial contamination event or compliance problem associated with:

- ◆ Revised Total Coliform Rule.
- ◆ Surface Water Treatment Rules.
- ◆ Groundwater Rule.
- ◆ Uncovered finished water reservoirs.
- ◆ Exceeding EPA Health Advisory (HA) level for microbials and cyanotoxins. Per the current EPA HA, the identified cyanotoxins are microcystins (current level established at 0.3 micrograms per liter) and cylindrospermopsin (current level established at 0.7 micrograms per liter).

In addition, your project must be one of the following types:

- ◆ Disinfection or filtration projects to address the documented problem.
- ◆ Source reconstruction or replacement to address the documented problem.
- ◆ Reservoir replacement or new cover if finished water reservoir is currently uncovered.
- ◆ Reservoir, clearwell, or pipeline construction to satisfy a chlorine contact-time requirement.

**Risk Category 2 Primary Inorganic Chemical (34 points).** To receive a score in this category, your project must address compliance problems or exceedances associated with the following.

- |                  |  |
|------------------|--|
| ○ Antimony (Sb)  | ○ Fluoride (F) (exceeds MCL of 4.0 mg/l) |
| ○ Arsenic (As)   | ○ Lead (Pb)                              |
| ○ Asbestos       | ○ Mercury (Hg)                           |
| ○ Barium (Ba)    | ○ Nickel (Ni)                            |
| ○ Beryllium (Be) | ○ Nitrate (as N)                         |
| ○ Cadmium (Cd)   | ○ Nitrite (as N)                         |
| ○ Chromium (Cr)  | ○ Selenium (Se)                          |
| ○ Copper (Cu)    | ○ Thallium (Tl)                          |
| ○ Cyanide (HCN)  |  |

Risk Category 2 also includes the following.

- ◆ Corrosion control projects for lead and copper.
- ◆ Projects to address a combined concentration of PFOS, PFOA, PFHxS, PFNA, and PFHpA that exceeds 70 parts per trillion.
- ◆ Projects that address water shortages associated with a declining aquifer for the following communities: Connell, Ephrata, Kahlotus, Lind, Mesa, Moses Lake, Othello, Quincy, Ritzville,



Washtucna. **A water shortage response plan will be a required project submittal as part of the scope of work.**

**Risk Category 3 Other Primary Chemical (26 points).** To receive a score in this category, your project must address compliance problems or exceedances associated with:

- Disinfection by-products.
- Radionuclides.
- Organic chemicals.

Other eligible projects in Risk Category 3 include:

- ◆ Addressing a significant deficiency identified during the most recent sanitary survey. The system must have received a compliance order for the significant deficiency.
- ◆ Installation of disinfection as required in WAC 246-290-451, if not captured in Risk Category 1.
- ◆ Addressing an exceedance of an EPA HA level established for chemical contaminants, such as manganese concentrations that exceed 0.3 milligrams per liter.
- ◆ Receiverships
- ◆ Lead service line and gooseneck replacement. Removal and replacement of lead service lines and lead goosenecks are eligible for funding in this category. The water system must provide historic records to document that the service lines or goosenecks to be replaced are lead. Acceptable historic records include information on the age of the houses and high probability of lead components being present, line installation records, line repair information, and as-builts. Water systems doing lead service line and lead gooseneck replacement along with other work, such as replacement of galvanized service lines and water mains, will be able to qualify as Risk 3 category:
  - All water main replacement, valves, hydrants, lead component removal and replacement, and service line replacement costs (from main to the meter) are eligible for funding if within 500 feet of a removed and replaced lead service line or gooseneck.
  - Project applications intended to replace only lead service lines or service lines with goosenecks (no water main replacement involved) are eligible if at least 50.1 percent of the total service line replacement costs (from main to the meter) are associated with lead service line or gooseneck removal and replacement. Under this scenario, up to 49.9 percent of the construction costs can be for service line replacement construction costs that did not include removal and replacement of a lead service line or lead gooseneck.

**Risk Category 4 Secondary Chemical, Seawater Intrusion, or Resiliency (18 points).** To receive a score in this category, your project must address water quality problems associated with one of the following.

- Chloride (Cl)
- Fluoride (F) (exceedance of 2.0 mg/l MCL)
- Iron (Fe)
- Manganese (Mn)
- Silver (Ag)
- Sodium (Na)
- Sulfate (SO<sub>4</sub>)
- Zinc (Zn)

Projects that provide resiliency to the water system also qualify for Risk Category 4. Resilience refers to the ability of water infrastructure systems to withstand and recover from natural and man-made disturbances to their functioning. Resilience criteria for factors relating to project planning and design may address:

- ◆ Vulnerability of a water system to disruption of safe water delivery, whether natural or of human origin.
- ◆ Capability to recover from disruption of safe water delivery.
- ◆ A range of natural events capable of disruption, including flooding, long-term drought, and earthquakes.

Projects that qualify as providing system resiliency include (but are not limited to) adding a redundant source, modifying a surface water intake to operate under drought or flood conditions, seismic upgrades to finished water reservoirs or transmission mains, interties, or providing a generator at the main source. **The proposed project needs to benefit the majority—51 percent or more—of the population the water system serves. A water shortage response plan will be a required project submittal as part of the scope of work.**

Other projects that qualify for Risk Category 4 include:

- ◆ Addressing seawater intrusion.
- ◆ Addressing a significant finding identified in the most recent sanitary survey. The system must have received a compliance order for the significant finding.
- ◆ Addressing a nitrate or arsenic issue. To qualify, the system must have entry point monitoring that documents the system exceeds 80 percent of the nitrate or arsenic MCL.
- ◆ Restructuring or consolidation project not captured in Risk Category 1, 2, or 3.

**Risk Category 5 Infrastructure Replacement or Other Distribution Improvements (10 points).** To receive points in this category, your project must address infrastructure sustainability. Examples of projects in this category include:

- ◆ Source enhancement.
- ◆ Replace treatment equipment.
- ◆ Additional distribution reservoir.
- ◆ Treatment plant discharge improvements.
- ◆ Pressure reduction device(s).
- ◆ Backflow prevention device(s).
- ◆ Security measures (cameras, fencing, lighting, lab equipment, chemical storage) not included as part of a category 1-4 project.
- ◆ Replace distribution infrastructure.
- ◆ Replace roof for reservoir and other structures.
- ◆ Other distribution improvements.

**An application can receive points in only one risk category.**